

Bottlenecks keep natural gas prices high

Supplies plentiful but problems with storage causing costs to soar

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WASHINGTON - The country is awash in natural gas inventories and mild temperatures have kept demand in check. Yet the price of this home-heating and power-generation fuel is still soaring above historical norms.

What gives?

Whenever energy prices jump, consumer groups are quick to accuse speculators, while industry executives point fingers at environmental policies they say restrict supply growth. Certainly, oil above \$60 a barrel puts upward pressure on natural gas. The current situation, however, highlights another knotty market force at work, analysts and executives say.

A dearth of natural-gas storage and pipeline capacity, particularly in the Northeast, raises the risk of bottlenecks during periods of peak demand and that places abnormally high seasonal pressure on prices - even when nationwide supplies are bountiful.

"Most people just take it for granted that the gas shows up when they need it," said John Hopper, chief executive officer of Falcon Gas Storage Company. But as a result of rising demand and insufficient investment in the infrastructure needed to transport natural gas from producing areas to consuming areas, "we're busting at the seams," Hopper said.

On the New York Mercantile Exchange, front-month natural gas futures traded close to \$9 per 1,000 cubic feet in late November. They are now trading above \$7, which is still a 66 percent increase since late September. Before 2000, natural gas futures rarely climbed above \$3. Natural gas is used to heat roughly 62 million homes in the U.S. and it is increasingly important as a source of fuel for power producers, driving up the cost of electricity.

When it comes to volatility, analysts say the natural gas market stands in contrast to oil and gasoline markets, whose regional bottlenecks are not as severe, allowing for more modest seasonal price swings.

While high and volatile natural gas prices have made plenty of energy executives and traders rich in recent years, the trend may not serve the industry's best interests over time, industry officials said.

"In the long run, I think volatility is going to hurt the natural gas business. That's what is freaking everybody out right now," said Mark Fiedorek, a vice president at Houston-based Duke Energy Gas Transmission, which will be renamed Spectra Energy Corp. next year when it is spun off from parent Duke Energy Corp.

Fiedorek said that if the natural gas prices do not become more stable, the industry could very well lose market share to coal and nuclear.